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No.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1996

GENENTECH, INC.,

Petitioner,

vs.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. In determining the scope and operation of the "community of interest" doctrine, did the Federal Circuit substantially alter the traditional "identical legal interest" standard first articulated more than twenty years ago in *Duplan Corp.* v. *Deering Milliken, Inc.*, 397 F. Supp. 1146, 1172 (D.S.C. 1975) and applied thereafter by the majority of District Courts that have considered the issue?

2. Is the standard adopted by the Federal Circuit in conflict with Seventh Circuit law governing the community of interest doctrine?

3. Did the Federal Circuit err in granting a writ of mandamus without giving substantial deference to the detailed factual findings of the District Court?

4. Did the Federal Circuit err in applying the community of interest doctrine to avoid waiver of the attorney-client privilege and work product immunity in circumstances where, as the District Court correctly found: (i) a patent applicant divulged privileged information to an optionee for a non-exclusive license of such patent; (ii) the optionee might not exercise the option; (iii) the optionee threatened to abandon the option unless the patent applicant agreed to material changes; (iv) an exclusive license agreement between the parties was not executed until more than ten years after the option for a non-exclusive license was first granted; (v) the terms of the license were materially different from the terms of the option; (vi) at most, the optionee had a proprietary and commercial interest in the patent applications, but not a legal interest; and (vii) the communications were not in anticipation of litigation or in furtherance of a joint plan to avoid litigation?

PARTIES TO THE PROCEEDING

Petitioner is Genentech, Inc. Roche Holdings Inc.("Roche") owns approximately 66% of the issued shares of Genentech; however, Genentech remains an independent, publicly - traded company and continues to operate entirely independently of Roche. Roche has an option to acquire the remaining shares of Genentech.

Respondent is The Regents of the University of California ("UC"), owner of the patent-in-suit, United States Patent No. 4,363,877 (the '877 patent). Eli Lilly and Company ("Lilly"), the exclusive licensee for the '877 patent, was a party to this action. However, Genentech and Lilly have settled their claims and counterclaims in this action.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner respectfully petitions for a writ of certiorari to review a decision of the United States Court of Appeals for the Federal Circuit granting UC's Petition for Writ of Mandamus.

OPINIONS BELOW

The opinion and order of the court of appeals is reported at 101 F.3d 1386 (Fed. Cir. 1996). (Appendix A). The Entry of the District Court dated July 2, 1996 (Appendix B) is unreported.

JURISDICTION

The opinion and order of the court of appeals granting UC's petition for writ of mandamus was issued on November 14, 1997. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

There are no constitutional or statutory provisions involved in this petition. At issue here is the "community of interest" doctrine, a doctrine that has been developed under Federal and State common law.

STATEMENT OF THE CASE

A. Genentech's Request For Discovery Concerning the '877 Patent, Related Patents and Their Foreign Counterparts

This is a patent infringement case. UC asserts that Genentech infringes United States Patent No. 4,363,877 (the '877 patent). Genentech claims that the patent was procured through inequitable conduct and is otherwise invalid, unenforceable and not infringed. Genentech sought discovery concerning the applications for the '877 patent, related patents, and their foreign counterparts. UC objected to providing substantial portions of the documents and testimony requested by Genentech on the ground that such documents and information were immune from disclosure under the attorney-client privilege and work product immunity. UC further asserted that the community of interest doctrine operated to avoid waiver even where UC had shared privileged information relating to its patent applications with Lilly.

B. The Relationships Among Lilly, UC and Genentech

Since 1978, Lilly's rights under Genentech patents were in conflict with the interests of UC. On or about August 26, 1978, Genentech and Lilly entered into an agreement (the "Insulin Agreement") (Resp. Ex. 4)[1] pursuant to which (a) Lilly provided funding in support of Genentech's research and undertook to pay future royalties to Genentech based on sales of recombinant insulin (*Id.* Art. III, VIII), and (b) Lilly obtained rights to use Genentech inventions, including the technology described in the so-called "Itakura-Riggs" patents and patent applications,[2] for purposes of developing, marketing and selling a recombinant insulin product. (*Id.* §§ 4.01, 6.01). Genentech contends that these same Itakura-Riggs disclosures constitute material prior art which anticipate and/or render obvious the claims of the '877 patent, and that UC intentionally withheld this prior art from the examiner during prosecution of the application for the subject '877 patent.

Lilly agreed to pay the costs for prosecuting foreign patent applications relating to the project with Genentech, *including the Itakura-Riggs patent applications* that are at issue in this case. Thus, since 1978, Lilly has held exclusive rights to practice in the field of insulin under the Itakura-Riggs inventions. Because Lilly indisputably has utilized such technology in manufacturing its insulin product, at all times since 1978 Lilly has shared a common interest with Genentech in sustaining the validity and enforceability of the United States and foreign patents that issued based on such Itakura-Riggs disclosures.

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[1] As used herein "Resp. Ex." refers to exhibits to Respondant's Brief in Opposition to UC's Petition for Writ of Mandamus. "Pet. Ex." refers to exhibits to Petitioner's Brief.

[2] The Itakura-Riggs patent disclosures are embodied in, *inter alia*, U.S. Patent No. 4,356,270 and published European Patent Application Numbers 1929 (EPA 1929), published on May 17, 1979 and 1930 (EPA 1930), published on May 16, 1979.

On September 12, 1978, eighteen days after Genentech and Lilly entered into the Insulin Agreement, UC and Lilly entered into an Option Agreement (the "Option Agreement") pursuant to which UC granted to Lilly an exclusive option for a period of three years (or until Lilly's first commercial use of the technology) to acquire a *nonexclusive* license to use certain UC technology that had already been developed through governmental funding, including rights in the application for the subject '877 patent. (Pet. Ex. 6).

Without explanation, and in direct contradiction to the factual findings of the District Court, the Federal Circuit incorrectly characterized this Option Agreement as being indicative of "more than a non-exclusive" licensing arrangement. 101 F.3d at 1390. However, as the District Court correctly recognized, at most, the Option Agreement provided Lilly with non-exclusive licensing rights. The District Court found that as of 1978 any patents arising from the research funded by the United States government were to be licensed on a nonexclusive basis. (Pet. Ex. 1 at 3). Further, the District Court found that the Option Agreement provided that any license agreement granted under it would be subject to such governmental limitations. (*Id.*). In any event, if Lilly exercised its option, Lilly would be obligated to grant sublicenses to qualified applicants. Thus, as the District Court found, there can be no serious question that the Option Agreement reflected, at most, a non-exclusive license arrangement between UC and Lilly.

Pursuant to Article 2 of the Option Agreement, Lilly agreed to underwrite the cost of foreign patent applications for UC in certain specified countries. (Pet. Ex. 6, § 2.1). In the event Lilly exercised the option, UC would be entitled to royalties, but Lilly's royalty obligations were to be reduced by the amount it expended for patent prosecution costs (less $60,000). (*Id.*, § 2.2). Lilly further agreed that, if it exercised its option, it would pay UC's out-of-pocket costs for prosecuting the corresponding United States patent applications. (*Id.*, § 4.2).

The parties have disputed whether Lilly ever exercised its option under the Option Agreement. UC's position has not been consistent. However, UC apparently denies that Lilly exercised its option prior to the expiration of the term of the 1978 Option Agreement, or prior to the execution of the license agreement in 1989.[3]

The '877 patent issued on December 14, 1982. The undisputed evidence before the District Court established that (a) by March 31, 1987, Lilly had informed UC that it wanted an exclusive license for the '877 patent, (b) by March 31, 1987, Lilly had informed UC that if UC could not grant it an exclusive license, it would be willing to pay a royalty of only 1%, which was at least a 66% reduction from the royalty provided in the Option Agreement, and (c) Lilly wanted UC to obtain a waiver of the government's non-exclusive licensing requirement, thereby eliminating Lilly's obligation under the Option Agreement to grant sublicenses to qualified licensees. (Pet. Ex. 5).

In 1987, UC applied to the United States Government for a waiver of its nonexclusive licensing obligation. (Pet. Ex. 58). It was only after UC successfully obtained such a waiver that Lilly and UC were able to successfully negotiate an exclusive license agreement, which was executed on March 27, 1989 (the "1989 License Agreement"). (Pet. Ex. 59). Thus, after protracted negotiations with UC, Lilly first acquired rights to practice under the '877 patent pursuant to the 1989 License Agreement, and until that agreement was finalized, it was by no means certain that Lilly would ever acquire any rights to practice under the patent, much less exclusive rights. Moreover, although Lilly had rights beginning in 1978 to practice under competing Genentech patents (including

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[3] Had Lilly exercised the option, certain royalty obligations of Genentech to UC under an Agreement dated June 30, 1980 would have been reduced by $500,000. UC repeatedly--as late as March 16, 1988--informed Genentech that Lilly had not exercised the option, and therefore that there was no basis for such a royalty reduction.

Itakura-Riggs), Lilly never acquired rights to practice under any of UC's other related patents.

Beginning in 1979 and for a number of years prior to the execution of the 1989 License Agreement, UC prosecuted domestic and foreign patent applications related to the '877 patent application. Initially UC's patent counsel handled such applications, but consulted with Lilly attorneys and disclosed to Lilly attorneys otherwise confidential information relating to such applications. Beginning in or about 1984, at UC's request, and with UC's knowledge and consent, Lilly in-house counsel became more directly involved in the prosecution of UC foreign patent applications and in providing instructions to UC's foreign patent associates (Resp. Ex. 11). However, Lilly in-house attorneys Drs. Sparrow and Levy unequivocally testified that, at all relevant times, they viewed their client as Lilly, and not UC. (Resp. Ex. 10).

During the entire relevant time period, Lilly's concurrent interest in the competing Itakura-Riggs (Genentech) patent applications prevented Lilly from ever having an identical interest with UC. Indeed, Lilly's interest always has been potentially adverse to UC[4], and, ultimately, Lilly's position became actually adverse to UC in the so-called Proinsulin litigation, a case that was tried in 1995. *The Regents of University of California v. Eli Lilly & Co.*, 39 U.S.P.Q.2d (BNA) 1225 (S.D. Ind. 1995), *appeal pending*. In 1992, the Proinsulin case was consolidated with the present case and four others into a multi-district proceeding. *See*, *In re Recombinant DNA Technology Patent and Contract Litigation*, Docket No. 912 (J.P.M.L. Feb. 19, 1992), *aff'd*, *In re Regents of the University of Cal.*, 964 F.2d 1128 (Fed. Cir. 1992); *In re Recombinant DNA Technology Patent and Contract Litig.*, Docket No. 912 (J.P.M.L. Oct. 1, 1993)

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[4] As an example of the magnitude of the potential conflict, Lilly attorney Sparrow testified that one of UC's foreign associates, A.J. Park & Sons (in New Zealand), also concurrently served as Genentech's foreign patent counsel in connection with the competing Itakura-Riggs patent application in New Zealand. (Resp. Ex. 12).

C. Proceedings In the District Court

On March 22, 1996, Genentech filed a motion in the United States District Court for the Southern District of Indiana to compel testimony (and other discovery) and to overrule UC's objections based on the community of interest doctrine. In an Entry dated July 2, 1996, the District Court granted Genentech's motion. Applying Seventh Circuit law (the law of the regional circuit) and adhering to the well-established and traditional "identical legal interest" standard, the Court held that UC had waived its attorney-client privilege and work product immunity when it shared privileged information with Lilly during prosecution of UC's patent applications, including the application for the patent-in-suit. The Court reasoned that UC and Lilly did not share an identical legal interest during the relevant time period because at most Lilly had an option for a *non-exclusive* license, Lilly remained free to walk away from the option agreement at any time, and "in the context of the subject option agreement, UC and Lilly's shared interests were only proprietary". The District Court further found that UC's objections were deficient because UC and Lilly had not shared privileged information in anticipation of litigation or as part of a joint plan to avoid litigation.

D. UC's Petition for a Writ of Mandamus

On July 17, 1996, UC petitioned the Federal Circuit for a Writ of Mandamus. On November 14, 1996, the Federal Circuit granted UC's petition. With virtually no explanation, the Federal Circuit summarily rejected the factual findings of the District Court concerning the nature of the relationship between UC and Lilly. Moreover, although the Federal Circuit purported to apply Seventh Circuit law, it substantially modified it. In this regard, the Federal Circuit replaced the traditional strict "identical legal interest" doctrine with a more flexible "substantially identical legal interest" standard. Even more importantly, the Federal Circuit purported to eliminate the well-established rule in the Seventh Circuit and elsewhere that the community of interest doctrine operates to avoid waiver only for communications made in anticipation of

litigation or as part of a joint plan to avoid litigation. Thus, while the Federal Circuit purported to apply the law of the regional circuit, its opinion represented a drastic departure from the traditional community of interest doctrine as applied by Courts within the Seventh Circuit, and indeed, throughout the country.

REASONS FOR GRANTING THE PETITION

This is a case of substantial public importance because it gives the Court an opportunity to clarify a significant doctrine of privilege, and to remedy the Federal Circuit's improper and improvident use of its power to grant extraordinary writs.

The community of interest doctrine, which arises out of federal and state common law, substantially expands and, in appropriate cases, protects the attorney-client privilege and work product immunity. Prior to the decision of the Federal Circuit, the federal courts (including the courts within the Seventh Circuit) had consistently used a strict test in applying the community of interest doctrine. The decision of the Federal Circuit, while purporting to apply Seventh Circuit Law, failed to afford appropriate deference to the legal conclusions of the district court and substantially departed from preexisting precedent and from the Seventh Circuit standard. In granting the extraordinary relief of a writ of mandamus, the Federal Circuit also ignored the district court's factual determinations and thereby misused its power. Finally, the abuse of authority by the Federal Circuit has caused substantial and unfair prejudice to Genentech, and, ultimately, has improperly interfered with the search for truth.

The errors of the Federal Circuit are manifest. They include the following:

1. The Federal Circuit failed to provide appropriate deference to the District Court's determination of the applicable law.

The context of the Federal Circuit's decision was UC's petition for writ of mandamus. In order to obtain an extraordinary writ, UC had the burden of establishing that the

District Court committed "clear and indisputable" error in selecting the applicable rule of law and in exercising its discretion to regulate discovery and adjudicate claims of privilege. *Allied Chem. Corp.* v. *Daiflon, Inc.*, 449 U.S. 33, 34 (1980); *In re Cordis Corp.*, 769 F.2d 733, 736 (Fed. Cir.), *cert. denied*, 474 U.S. 851 (1985). Indeed, mandamus was appropriate only if no rational and substantial legal argument could be made in support of the rule of law in question, even though on normal appeal a court might find reversible error. *Id.*

However, the Federal Circuit made no effort to consider whether there was a rational and substantial basis for the rule of law selected by the district court. Even more troubling, the Federal Circuit used the occasion of UC's mandamus petition to create a drastic departure from the well-established law in the lower courts.

The Federal Circuit erred in failing to recognize that there was a rational and substantial basis for the rule of law selected by the District Court. As the Federal Circuit recognized, the District Court correctly looked to the law of the regional circuit to determine the legal standard applicable to this case. *See*, *Panduit Corp.* v. *All States Plastic Mfg. Co., Inc.*, 744 F.2d 1564 (Fed. Cir. 1984). To determine applicable Seventh Circuit law, the District Court reviewed rulings of the other District Courts within the Seventh Circuit and the leading cases outside of the Seventh Circuit. Mindful of the Seventh Circuit's admonition in *United States* v. *Lawless*, 709 F.2d 485, 487 (7th Cir. 1983), that the attorney-client privilege should be narrowly construed, the District Court agreed with several other District Courts within the Seventh Circuit which had reasonably determined that the Seventh Circuit would probably adhere to the traditional legal standard first enunciated in *Duplan*, 397 F. Supp. at 1172. In *Duplan*, which had been considered throughout the federal court system as a leading case concerning the community of interest doctrine, the court held that the community of interest doctrine requires that the persons or entities involved in the communication have an "identical legal interest" concerning the communication, and that the communication occurred in anticipation of

litigation. In determining that Courts within the Seventh Circuit would likely follow the traditional *Duplan* standard, the District Court reasonably stated as follows:

> Although some courts have expanded the community of interest doctrine to reach communications not meeting the stringent standard enunciated in *Duplan*, yet we are mindful of the Seventh Circuit's admonition that "[t]he scope of the privilege should be 'strictly confined within the narrowest possible limits.'" *United States* v. *Lawless*, 709 F.2d 485, 487 (7th Cir. 1983) (quoting 8 Wigmore, Evidence § 2291 (McNaughton rev. 1961) (further citations omitted. In view of this guidance, we adhere to the *Duplan* standard. *See Oak Indus* v. *Zenith Indus.*, 1988 WL 79614 (N.D. Ill. July 27, 1988).

(Appendix B at 5). Indeed, there can be no serious question that the District Court faithfully and reasonably adhered to the rule of law applied by every District Court within the Seventh Circuit to consider the issue. *See, e.g., Edward Lowe Indus., Inc.* v. *Oil-Dri Corp. of Am.*, 1995 WL 410979 (N.D. Ill. 1995); *Medcom Holding Co.* v. *Baxter Travenol Labs., Inc.*, 689 F. Supp. 841, 844-846 (N.D. Ill. 1988); *Allendale Mut. Ins.* v. *Bull Data Sys., Inc.*, 152 F.R.D. 132, 140 (N.D. Ill. 1993); *Graco Children's Products, Inc.* v. *Dressler, Goldsmith, Shore & Milnamow, Ltd.*, 1995 WL 360590 (N.D. Ill. 1995); *Oak Indus.* v. *Zenith Indus.*, 1988 WL 79614 (N.D. Ill. 1988). In such circumstances, it was clear that the District Court had a substantial and rational basis for the rule of law which it selected.

However, the Federal Circuit's opinion does not even address the issue of whether the District Court had a rational and substantial basis for its legal analysis. Had the Federal Circuit considered this matter, it could have granted UC's petition for a writ of mandamus only if it disagreed with every district court judge in the Seventh Circuit to have previously considered the issue, and, indeed, numerous other district court judges throughout the United States. For this reason alone, it

was clear error for the Federal Circuit to grant UC's petition for mandamus.

2. The Federal Circuit compounded this error by purporting to follow the law of the regional circuit, when, in fact, it did not do so. As the District Court correctly found, within the Seventh Circuit, and indeed, in the vast majority of District Courts throughout the United States, it was well-established that the community of interest doctrine operates to avoid waiver only (a) when the underlying communications themselves are privileged, (b) where the parties have an *identical legal interest*, and not a mere common commercial interest, with respect to the subject matter of the privileged communications or documents which were disclosed, and (c) where the identical legal interest arises out of impending or anticipated litigation or a joint effort to avoid litigation. *See*, *Edward Lowe Indus., Inc.* v. *Oil-Dri Corp. of Am.*, 1995 WL 410979, *1, *3 (N.D. Ill. 1995); *Anderson* v. *Torrington Co.*, 120 F.R.D. 82 (N.D. Ind. 1987); *Baxter Travenol Labs, Inc.* v. *Abbott Labs.*, 1987 WL 12919 (N.D. Ill. 1987); *Graco Children's Products, Inc.* v. *Dressler, Goldsmith, Shore & Milanamow, Ltd.*, 1995 WL 360590 (N.D. Ill. 1995); *Medcom Holding Co.* v. *Baxter Travenol Labs., Inc.*, 689 F. Supp. 841 (N.D. Ill. 1988); *Oak Indus.* v. *Zenith Indus.*, 1988 WL 79614 (N.D. Ill. 1988). This same standard has been applied by the vast majority of District Courts throughout the United States. *See*, *e.g.*, *Duplan Corp.* v. *Deering Milliken, Inc.*, 397 F. Supp. 1146, 1172 (D.C.S.C. 1974); *Bank Brussels Lambert* v. *Credit Lyonnais (Suisse) S.A.*, 160 F.R.D. 437, 447 (S.D.N.Y. 1995); *but see*, *Hewlett-Packard, Co.* v. *Baush & Lomb, Inc.*, 115 F.R.D. 308 (N.D. Cal. 1987); *Raymon* v. *American Charter Fed. Sav. & Loan Ass'n*, 148 F.R.D. 647 (D. Neb. 1993).[5]

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[5] As evidenced by *Hewlett-Packard Co.* and *Raymon*, a very small group of courts have held that the community of interest doctrine operates to avoid waiver where disclosures of privileged information were made during contract negotiations, and where the disclosures were made in anticipation of litigation in which the parties to the negotiations were

(Footnote continued)

Instead of faithfully applying the law of the regional (Seventh) Circuit, the Federal Circuit departed from the traditional community of interest doctrine in two respects: First, the strict "identical" legal interest test was replaced with a more flexible "substantially identical legal interest" standard. Second, the Federal Circuit swept away the traditional "in anticipation of litigation" requirement which had always before been viewed as a critical limitation on the scope of the community of interest doctrine.

Such a departure from traditional legal doctrine is unsound and unwise. The attorney-client privilege and work product immunity operate as an impediment to the truth finding process. The community of interest doctrine, if not appropriately limited in scope, would represent a potentially drastic expansion of the scope of these privileges and immunities. Thus, as the lower federal courts have developed this doctrine, they have wisely and appropriately applied it narrowly.

Although clients should be encouraged to speak freely with, and disclose information in confidence to, their attorneys, the attorney-client privilege should not be expanded so as to shield from disclosure the substance of commercial dealings between the parties which have potentially or actually conflicting interests.

3. The Federal Circuit compounded its legal errors by failing to give appropriate deference to the fact findings of the District Court.

Nowhere in the Federal Circuit's opinion is there an explanation as to why the District Court committed clear error in exercising its discretion to determine the facts relevant to the instant dispute. *See*, *In Re Ethicon, Inc.*, 991 F.2d 810 (Fed. Cir. 1993) ("Where a matter is committed to a trial court's

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expected to have a common interest following successful completion of such negotiations. Even these decisions adhere to the "in anticipation of litigation" requirement of the traditional community of interest doctrine, a requirement that the Federal Circuit has inexplicably swept aside.

discretion, a petitioner has an almost insurmountable burden of showing that mandamus should be granted"). Indeed, in its zeal to depart from well-settled legal doctrine, the Federal Circuit essentially ignored without explanation the specific and detailed factual findings of the District Court. This resulted in a monumental factual blunder by the Federal Circuit insofar as it held that "Lilly was more than a non-exclusive licensee. . . ." 101 F.2d at 1390.

This finding of the Federal Circuit was inaccurate and and resulted directly from the Federal Circuit's disregard for the reasonable factual findings of the District Court. To the contrary, the District Court reasonably and appropriately found that:

1. The Option Agreement provided Lilly with at most a non-exclusive license of the '877 patent. Especially in view of then-existing governmental policies, the Lilly-UC relationship was not "more than a non-exclusive licensing" arrangement.

2. Government policy at the time of the Option Agreement, as incorporated into the Option Agreement required that UC's patents derived from federally funded research be licensed on a non-exclusive basis. Until the government granted UC's 1987 application for a waiver of the nonexclusive licensing requirement, Lilly had only an option to license the subject technology nonexclusively. Yet substantially all of the communications between UC and Lilly at issue occurred before this 1987 waiver was obtained, and even then it took UC and Lilly nearly two years to negotiate the terms of a formal license agreement.

3. The Option Agreement provided that Lilly could walk away from the agreement at any time and did not suggest that, in the event a patent issued, Lilly would have any responsibility for filing suit against alleged infringers.

4. In the context of the Option Agreement, UC and Lilly's shared interests in the patents were only proprietary, and not legal.

5. Lilly did not obtain an exclusive license for the '877 patent until 1989, after protracted negotiations with UC for such a license agreement.

On UC's petition for mandamus, the Federal Circuit could legitimately overturn these factual findings of the District Court only if there was clear and indisputable error. Yet its opinion is devoid of any discussion of whether the detailed factual findings of the District Court were clearly erroneous. Therefore, the Federal Circuit abused its appellate authority when it summarily rejected the factual findings of the District Court, which had substantial record support.

Disputes over the fact findings of lower courts rarely provide a sufficient basis for granting a writ of certiorari, but the issue here does not merely concern fact finding. The issue is whether the Federal Circuit abused its power and authority in issuing the writ without articulating any rational or substantial basis for rejecting the factual findings of the lower court.

The Federal Circuit's abuse of its appellate authority presents a matter of special importance for this Court's consideration-- whether in reviewing a petition for writ of mandamus, the Federal Circuit should conduct a *de novo* review of both the legal and factual determinations of the district court, placing itself, in effect, in the position of a super trial court. Such appellate second-guessing of the reasonable legal and factual findings of the district court diminishes the authority of the district courts and threatens the integrity of district court proceedings. Moreover, such abuse of appellate authority results in improper utilization of the writ of mandamus, a development which will undoubtedly invite a plethora of baseless and unwarranted mandamus petitions, resulting in a substantially increased burden on appellate courts.

CONCLUSION

This is one of the rare cases in which a writ of certiorari should be granted. As a result of the Federal Circuit's recent drastic departure from the traditional community of interest doctrine, there is now a fundamental disagreement among the lower courts that is ripe for resolution by this Court. Perhaps more importantly, however, this case provides this Court with a rare opportunity to correct a clear abuse of appellate authority by the Federal Circuit, and in so doing, to confirm the appropriate level of deference owing the factual and legal interlocutory rulings of district courts.

Dated: February 11, 1997

Respectfully submitted

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APPENDIX

APPENDIX A

101 F.3d 1386
65 USLW 2337, 114 Ed. Law Rep. 780, 40 U.S.P.Q.2d 1784
(Cite as: 101 F.3d 1386)

In re the REGENTS OF the UNIVERSITY OF CALIFORNIA, Petitioner.

Miscellaneous No. 471.

United States Court of Appeals,
Federal Circuit.

Nov. 14, 1996.

University petitioned for writ of mandamus, seeking vacation of discovery order entered in multidistrict patent litigation. The Court of Appeals, Pauline Newman, Circuit Judge, held that university that had applied for patent and optionee/licensee had requisite common interest for attorney-client privilege to attach to communications between university and attorneys for optionee/licensee.

Writ granted.

[1] MANDAMUS k53
250k53
Judicial orders may be overturned by extraordinary writ only when there has been clear abuse of discretion or usurpation of judicial authority in grant or denial of order.

[2] MANDAMUS k168(2)
250k168(2)
Petitioner has burden of establishing its right to issuance of extraordinary writ is clear and undisputable, and that it lacks adequate alternative means to obtain relief sought.

[3] MANDAMUS k40
250k40
Writ of mandamus may be sought to prevent wrongful exposure of privileged communications.

[4] MANDAMUS k32
250k32
Remand of remaining action to district court in multidistrict patent litigation did not deprive Court of Appeals of jurisdiction over mandamus petition challenging discovery order, where discovery to which petition was directed was applicable regardless of whether consolidation of pretrial procedures was otherwise terminated, and completion of challenged discovery was stayed pending appeal.

[5] WITNESSES k199(2)
410k199(2)
University that had applied for patent and optionee/licensee had requisite common interest for attorney-client privilege to attach to communications between university and attorneys for optionee/licensee; optionee/licensee's attorneys received confidential information from university and gave legal advice to university, and both university and optionee/licensee had interest in obtaining valid and enforceable patents.

[6] WITNESSES k199(2)
410k199(2)
When same attorney represents interests of two or more entities on same matter, those represented are viewed as joint clients for purposes of attorney-client privilege.

[7] WITNESSES k201(1)
410k201(1)
Attorney-client privilege is not limited to actions taken and advice obtained in shadow of litigation.

[8] WITNESSES k199(2)
410k199(2)
When prelitigation advice and assistance serves shared legal interest, parties to that interest do not lose attorney-client privilege when litigation arises.

[9] WITNESSES k201(1)
410k201(1)
Consultation with counsel during patent prosecution meets criteria of compliance with law in meeting legal requirements,

thereby reducing or avoiding litigation, and is within scope of subject matter that is subject to attorney-client privilege.

[10] WITNESSES k199(2)
410k199(2)
Joint client doctrine and community of interest doctrine apply to and protect legal advice and communications between patent applicant or patentee and attorneys of its optionee/licensee.

***1387** Gerald P. Dodson, Arnold, White & Durkee, Menlo Park, CA, submitted the petition for writ of mandamus for petitioner. With him on the petition were Emily A. Evans and Karen J. Kramer. Also with him on the petition was P. Martin Simpson, Jr., The University of California, Office of Technology Transfer, Alameda, CA.

John E. Kidd, Rogers & Wells, New York City, submitted the response to the petition for writ of mandamus for respondent Genentech, Inc. Of counsel was Joseph Ferraro.

Donald R. Dunner, Finnegan, Henderson, Farabow, Garrett & Dunner, L.L.P., Washington, DC, submitted the response to the petition for writ of mandamus for respondent Eli Lilly and Company. Of counsel were Howard W. Levine and Charles E. Lipsey.

Before NEWMAN, Circuit Judge, SKELTON, Senior Circuit Judge, and LOURIE, Circuit Judge.

ORDER

PAULINE NEWMAN, Circuit Judge.

The Regents of the University of California ("UC") petition for a writ of mandamus to the United States District Court for the Southern District of Indiana, to vacate the court's July 2, 1996 order[1] granting Genentech, Inc.'s motion to compel the

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[1] Genentech, Inc. v. The Regents of the University of California, MDL Docket No. 912, IP-90-1679-C-D/G (S.D.Ind. July 2, 1996).

deposition testimony of three attorneys employed by Eli Lilly and Company.

[1][2] Judicial orders may be overturned by extraordinary writ only when there has been a clear abuse of discretion or usurpation of judicial authority in the grant or denial of the order. In re The Regents of the University of California, 964 F.2d 1128, 1135, 22 USPQ2d 1748, 1754 (Fed.Cir.1992). See Gulfstream Aerospace Corp. v. Mayacamas Corp., 485 U.S. 271, 289, 108 S.Ct. 1133, 1143, 99 L.Ed.2d 296 (1988) ("The federal courts traditionally have used the writ only 'to confine an inferior court to a lawful exercise of its prescribed jurisdiction or to compel it to exercise its authority when it is its duty to do so.'") (quoting Roche v. Evaporated Milk Ass'n, 319 U.S. 21, 26, 63 S.Ct. 938, 941, 87 L.Ed. 1185 (1943)); In re Calmar, Inc., 854 F.2d 461, 464 (Fed.Cir.1988) ("Mandamus may be employed in exceptional circumstances to correct a clear abuse of discretion or usurpation of judicial power by a trial court.") The petitioner has the burden of establishing that its right to issuance of the writ is clear and indisputable, Allied Chem. Corp. v. Daiflon, Inc., 449 U.S. 33, 35, 101 S.Ct. 188, 190, 66 L.Ed.2d 193 (1980), and that it lacks adequate alternative means to obtain the relief sought. Mallard v. United States District Court, 490 U.S. 296, 309, 109 S.Ct. 1814, 1822, 104 L.Ed.2d 318 (1989).

[3] Genentech argues that discovery orders are not routinely appealable. However, the issue before us is not a routine discovery dispute, but one of attorney-client privilege. A writ of mandamus may be sought to prevent the wrongful exposure of privileged communications. As stated in Harper & Row Publishers, Inc. v. Decker, 423 F.2d 487, 492 (7th Cir.1970), aff'd per curiam, 400 U.S. 348, 91 S.Ct. 479, 27 L.Ed.2d 433 (1971), "because maintenance of the attorney-client privilege up to its proper limits has substantial importance to the administration of justice, and because an appeal after disclosure of the privileged communication is an inadequate remedy, the extraordinary remedy of mandamus is appropriate." See also, e.g., Rhone- Poulenc Rorer Inc. v. Home Indem. Co., 32 F.3d 851, 861 (3d Cir.1994)

("Mandamus may properly be used as a means of immediate appellate review of orders compelling the disclosure of documents and information ***1388** claimed to be protected from disclosure by privilege or other interests in confidentiality.")

The district court ruled that the attorney-client privilege was waived, or never vested, when the Eli Lilly attorneys provided legal advice and services to UC. This is "not a mere discretionary [ruling] but rather turns on legal questions appropriate for appellate review." In re Burlington Northern, Inc., 822 F.2d 518, 522-23 (5th Cir.1987), cert. denied, 484 U.S. 1007, 108 S.Ct. 701, 98 L.Ed.2d 652 (1988). This case meets the rigorous requirements stated in Chase Manhattan Bank, N.A. v. Turner & Newall, PLC, 964 F.2d 159, 163 (2d Cir.1992), that mandamus review may be granted of discovery orders that turn on claims of privilege when (1) there is raised an important issue of first impression, (2) the privilege would be lost if review were denied until final judgment, and (3) immediate resolution would avoid the development of doctrine that would undermine the privilege. See Schlagenhauf v. Holder, 379 U.S. 104, 110, 85 S.Ct. 234, 238, 13 L.Ed.2d 152 (1964).

This petition arises in connection with consolidated pretrial proceedings in the Southern District of Indiana, established by the Judicial Panel on Multidistrict Litigation in In re Recombinant DNA Technology Patent and Contract Litigation, Docket No. 912 (J.P.M.L. Feb. 19, 1992), aff'd, In re The Regents of the University of California, 964 F.2d 1128, 22 USPQ2d 1748 (Fed.Cir.1992). The proceedings initially involved six cases, concerning various patents, research arrangements, and license agreements among UC, Genentech, and Lilly, in the field of recombinant DNA technology and its use in the production of human insulin and human growth hormone (hGH). Lilly was a party to various of these actions until December 1994, when Lilly and Genentech stipulated to the dismissal with prejudice of all claims against each other.

In the case in which this petition originated Genentech seeks a declaration that UC's United States Patent No.

4,363,877 (the '877 patent) is invalid, unenforceable, or not infringed by Genentech's production of hGH products. Genentech sought the discovery depositions of three Lilly in-house attorneys relating to the prosecution of the '877 patent and its counterparts in foreign countries. The district court ordered the testimony, but stayed completion of this discovery pending this appeal.

[4] Meanwhile, on September 27, 1996 the district court dismissed the declaratory action that had been brought by Genentech (IP-90-1679-C), granting UC's renewed motion for summary judgment on Eleventh Amendment grounds. The district court then requested the Judicial Panel on Multidistrict Litigation to remand the remaining action, IP-92-0223-C, to the Northern District of California for trial. The district court stated that "because the two cases are mirror images, the discovery that has taken place in IP-90-1679-C fully is applicable to IP-92-0223-C." Slip op. at 16. The Multidistrict Panel issued a Conditional Remand Order on October 4, 1996; Genentech states that it has opposed the remand order on the ground that this discovery is incomplete, thus delaying the order's effectiveness, in accordance with Rule 14(f)(ii) of the Panel.

On October 15, 1996 the Federal Circuit ordered UC and Genentech to advise whether this mandamus petition should appropriately be dismissed in view of the district court's action. UC and Genentech are of one mind in opposing dismissal. They point out that the discovery to which this petition is directed is applicable whether or not the consolidation of pre-trial procedures is otherwise terminated, and that completion of the challenged discovery was stayed pending this appeal.

Taking note of the stay in conclusion of the multidistrict proceedings, we agree that we have not been divested of jurisdiction of the petition. For the reasons discussed we grant the writ of mandamus.

DISCUSSION

On April 19, 1978 UC filed the United States patent application that led to the '877 patent. In September 1978 UC and Lilly entered into an exclusive option agreement for certain license rights to ensuing United States and corresponding foreign patents; ***1389** the license would become exclusive upon certain conditions subsequent. Those conditions did occur and the license became exclusive. Lilly agreed to pay the foreign patent costs, and in 1984 Lilly in-house attorneys assumed direct responsibility for prosecuting the foreign patent applications, in collaboration with UC patent counsel. Genentech is seeking to discover the legal advice that was given and that relates to the United States '877 patent.

According to Genentech, the UC and Lilly attorneys frequently discussed certain prior art, which Genentech alleges is material to the '877 United States patent. Genentech states that testimony about those communications is relevant to the issue of inequitable conduct. Genentech also seeks testimony from a Lilly attorney about his investigation and advice to UC concerning errors in the '877 patent, which led to UC's application for a Certificate of Correction. Genentech states that obtaining the Certificate of Correction also involved inequitable conduct by UC.

Genentech argues that an attorney-client communication is not privileged if it is shared with a third party, and that Lilly was a third party despite its status as optionee/licensee. UC responds that the Lilly attorneys represented both UC and Lilly in a shared effort to obtain these United States and foreign patent rights, and that the communications between UC and the Lilly attorneys were protected by the attorney-client privilege. The district court held that "the UC-Lilly relationship arising from the option agreement created no need for a common defense" because "[t]he entities were prosecuting patents, and at that point, apparently were bound only by the prospects of financial gain and heightened reputation." The district court concluded that UC and Lilly did not share the requisite community of interest to allow UC to invoke

attorney-client privilege as an exception to the general rule favoring full discovery.

The Community of Interest Doctrine

[5][6] When the same attorney represents the interests of two or more entities on the same matter, those represented are viewed as joint clients for purposes of privilege. See Simpson v. Motorists Mutual Ins. Co., 494 F.2d 850, 855 (7th Cir.) ("[W]here the same attorney represents two parties having a common interest, and each party communicates with the attorney, the communications are privileged from disclosure at the instance of a third person."), cert. denied, 419 U.S. 901, 95 S.Ct. 184, 42 L.Ed.2d 147 (1974). As explained in Griffith v. Davis, 161 F.R.D. 687, 693 (C.D.Cal.1995), "the joint client doctrine typically has been applied to overcome what would otherwise have constituted a waiver of confidentiality because a communication had been shared between two clients."

The protection of communications among clients and attorneys "allied in a common legal cause" has long been recognized. As one court explained:

> [W]here there is consultation among several clients and their jointly retained counsel, allied in a common legal cause, it may reasonably be inferred that resultant disclosures are intended to be insulated from exposure beyond the confines of the group; that inference, supported by a demonstration that the disclosures would not have been made but for the sake of securing, advancing, or supplying legal representation, will give sufficient force to a subsequent claim to the privilege.

In re Grand Jury Subpoena Duces Tecum, 406 F.Supp. 381, 386 (S.D.N.Y.1975). The issue has previously arisen in connection with patent rights. See, e.g., Baxter Travenol Labs., Inc. v. Abbott Labs., 1987 WL 12919, *1 (N.D.Ill. June 19, 1987) ("A community of legal interests may arise between parties jointly developing patents; they have a common legal

interest in developing the patents to obtain greatest protection and in exploiting the patents."); SCM Corp. v. Xerox Corp., 70 F.R.D. 508, 514 (D.Conn.) ("Whether the legal advice was focused on pending litigation or on developing a patent program that would afford maximum protection, the privilege should not be denied when the common interest is clear."), appeal dismissed, 534 F.2d 1031 (2d Cir.1976).

UC argues that it and Lilly were, in the circumstances that here obtained, both clients of the Lilly lawyers, and that UC and Lilly shared a common legal interest in gaining sound patent rights to this technology, ***1390** which had been developed by UC and optioned and licensed by Lilly. UC also cites the fact that from the inception of the option agreement, Lilly's license rights had the potential to become and ultimately did become exclusive and that that fact gave Lilly and UC an identity of interest. Thus UC argues that its communications with the Lilly attorneys are subject to the attorney-client privilege, along with Lilly's work product on behalf of UC.

Genentech argues that UC and Lilly lacked the requisite common interest for the attorney-client privilege to attach to the communications between UC and the Lilly attorneys. Genentech also argues that UC was not a client of the Lilly in-house attorneys. Indeed, the Lilly attorneys testified that they considered Lilly, and not UC, to be their "client." However, the issue is not who employed the attorney, but whether the attorney was acting in a professional relationship to the person asserting the privilege. "The professional relationship for purposes of the privilege for attorney-client communications 'hinges upon the client's belief that he is consulting a lawyer in that capacity and his manifested intention to seek professional legal advice.'" Westinghouse Elec. Corp. v. Kerr-McGee Corp., 580 F.2d 1311, 1319 (7th Cir.), cert. denied, 439 U.S. 955, 99 S.Ct. 353, 58 L.Ed.2d 346 (1978) (quoting McCormick, Evidence § 88 at 179 (2d ed. 1972)).

The Lilly attorneys advised and consulted frequently with UC counsel on matters relating to UC's patents. It is not

disputed that the Lilly attorneys received confidential information from UC and gave legal advice to UC. However, Genentech argues that even if UC were deemed to be a "client" of the Lilly attorneys, Lilly and UC lacked a common legal interest because UC was the inventor/patentee and Lilly was an optionee and a potential licensee. As we have discussed, in order for the communications between UC and the Lilly attorneys to be protected by the attorney-client privilege, Lilly and UC as clients must share a common legal interest, or have a community of interest, with respect to the subject of the communications. The district court held that the community of interest standard required that "the nature of the interest be identical, not similar, and be legal, not solely commercial," citing Duplan Corp. v. Deering Milliken, Inc., 397 F.Supp. 1146, 1172 (D.S.C.1974). Although the district court recognized that it was imposing a stringent standard, it relied on United States v. Lawless, 709 F.2d 485, 487 (7th Cir.1983) for the proposition that the scope of the attorney-client privilege should be narrowly drawn.

Accepting that the scope of the attorney-client privilege is narrowly drawn in the Seventh Circuit,[2] we conclude that the legal interest between Lilly and UC was substantially identical because of the potentially and ultimately exclusive nature of the Lilly-UC license agreement. Both parties had the same interest in obtaining strong and enforceable patents. The district court erred in concluding that Lilly and UC did not have an identical legal interest in the '877 patent and its foreign counterparts because "a patentee and a nonexclusive licensee do not share identical legal interests." Lilly was more than a non-exclusive licensee, and shared the interest that UC would obtain valid and enforceable patents. UC is a university seeking valid and enforceable patents to support royalty income. Lilly is an industrial enterprise seeking valid and enforceable

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[2] For procedural matters that are not unique to patent issues, we apply the perceived law of the regional circuit. National Presto Indus., Inc. v. West Bend Co., 76 F.3d 1185, 1188 n. 2, 37 USPQ2d 1685, 1686 n. 2 (Fed.Cir.1996).

patents to support commercial activity. Valid and enforceable patents on the UC inventions are in the interest of both parties. See Duplan, 397 F.Supp. at 1172 ("The fact that there may be an overlap of a commercial and a legal interest for a third party does not negate the effect of the legal interest in establishing a community of interest.")

[7][8] Genentech also contends that the communications between UC and the Lilly attorneys are not covered by the privilege because they were not made in anticipation of litigation. It is well established that the attorney-client privilege is not limited to actions taken and advice obtained in the shadow of litigation. Persons seek legal advice ***1391** and assistance in order to meet legal requirements and to plan their conduct; such steps serve the public interest in achieving compliance with law and facilitating the administration of justice, and indeed may avert litigation. Upjohn Co. v. United States, 449 U.S. 383, 389, 101 S.Ct. 677, 682, 66 L.Ed.2d 584 (1981). When such pre- litigation advice and assistance serve a shared legal interest, the parties to that interest do not lose the privilege when litigation arises. See SCM Corp., 70 F.R.D. at 513 ("The privilege need not be limited to legal consultations between corporations in litigation situations, however. Corporations should be encouraged to seek legal advice in planning their affairs to avoid litigation as well as in pursuing it.") See generally Paul R. Rice, Attorney-Client Privilege in the United States § 1:13 (1993) (the attorney-client privilege in the United States is free of the "pending or in anticipation of litigation" limitation).

[9] The district court cited Edward Lowe Indus., Inc. v. Oil-Dri Corp. of America, 1995 WL 410979 (N.D.Ill. July 11, 1995), for its statement that "the patent prosecution process does not create a need" for the "common defense" privilege. The Edward Lowe court, however, held that it would apply the common interest doctrine to documents that "address either anticipated litigation or a joint effort to avoid litigation," id. at *2, and observed that Baxter Travenol Labs., supra, and SCM Corp., supra, are not inconsistent with this general rule. We agree. Consultation with counsel during patent

prosecution meets the criteria of compliance with law and meeting legal requirements, thereby reducing or avoiding litigation, and is within the scope of subject matter that is subject to the attorney-client privilege.

[10] We conclude that the joint client doctrine and the community of interest doctrine apply to and protect legal advice and communications between the patent applicant or patentee and attorneys of its optionee/licensee.

Accordingly, IT IS ORDERED THAT:

The writ of mandamus is granted. The communications for which discovery is sought are protected by the attorney-client privilege.

END OF DOCUMENT

APPENDIX B

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF INDIANA
INDIANAPOLIS DIVISION

GENENTECH, INC.,	)	
	)	
Plaintiff,	)	MDL DOCKET NO. 912
	)	
-vs-	)	
	)	
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,	)	IP-90-1679-C-D/G
	)	
	)	
Defendant.	)	

Entry Granting Genentech's Motion to Compel Testimony and to Overrule UC's Objections Based on the Community of Interest Doctrine

This cause comes before the Court on Genentech's motion to overrule UC's objections based on the community of interest doctrine. For the following reasons, the motion is GRANTED.

Background

The present action is one of six cases consolidated in this Court for pretrial proceedings by the Judicial Panel on Multidistrict Litigation. *See In re Recombinant DNA Technology Patent and Contract Litig.*, Docket No. 912 (J.P.M.L. Feb. 19, 1992), *aff'd, In re Regents of the Univ. of Cal.*, 964 F.2d 1128 (Fed. Cir. 1992); *In re Recombinant DNA Technology Patent and Contract Litig.*, Docket No. 912 (J.P.M.L. Oct. 1, 1993). The consolidated cases arose out of various research arrangements and license agreements among the Regents of the University of California UC), Genentech, Inc. (Genentech) and

Eli Lilly and Company (Lilly). The instant case is the only one of the consolidated actions remaining actively litigated.[1]

Presently, Genentech seeks to compel certain testimony of Lilly in-house attorneys Dr. Calvin Sparrow (Sparrow), Dr. Ron Levy (Levy) and Dr. Gerald Dahling (Dahling). Apparently, Genentech believes that such testimony will be relevant to its claims that UC's United States Patent Number 4,363,877 (the '877 patent) is invalid and unenforceable based on UC's alleged inequitable conduct. According to Genentech, any privilege that may have existed in the subject communications was waived when UC and Lilly shared the information. To the contrary, UC contends that the subject testimony is immunized from disclosure by way of the community of interest doctrine, which is an exception to the rule that waives privilege upon disclosure of protected information to a third party. Specifically, UC contends that the nature of the relationship between it and Lilly during the time period in issue prevents the sharing of information between the two entities from operating as a waiver of privilege. We provide relevant background information.

On April 19, 1978, UC filed with the United States Patent and Trademark Office (PTO) the patent application leading to the '877 patent. The research underlying this patent application had been funded by the Department of Health, Education and Welfare (HEW). Significantly, one condition of the governmental funding was that any patents arising from the research were to be licensed on a nonexclusive basis. On September 12, 1978, UC and Lilly entered into an option agreement, whereby Lilly obtained the exclusive right to acquire a license to use certain technology arising from UC's

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[1] For an explanation of the status of the other cases, see Entry Denying Genentech's Second Motion for Summary Judgment That the Certificate of Correction for United States Patent Number 4,363,877 Is Null and Void, That United States Patent Number 4,363,877 Is Unenforceable Due to Inequitable Conduct, and That UC's Other Claims Are Barred Under the Doctrine of Unclean Hands at 2 n.1, Cause Number IP-90-1679-C-D/G (S.D. Ind. March 13, 1996).

federal grants. The application for the '877 patent was included in this option agreement. The term of the agreement was three years from the date of the agreement or until Lilly's first commercial use of the technology. The option agreement provided that any license agreement granted under it would be subject to limitations imposed by the HEW.

On December 14, 1982, the PTO issued the '877 patent to UC. In 1987, UC applied to the HEW for a waiver of the non-exclusive provision tied to the governmental funding.[2] Because of a statutory amendment and certain executive orders, UC was granted the waiver. *See* Entry Granting in Part and Denying in Part Genentech's Motion for Leave to Further Amend Its Amended Complaint; Granting in Part and Denying in Part UC's Motion to Dismiss Counts II-VIII of Genentech's Amended Complaint; and Reinstating Genentech's § 1 Sherman Act Claim Against Lilly at 18-22, Cause Number IP-90-1679-C (S.D. Ind. Nov. 18, 1994). Finally, on March 27, 1989, Lilly and UC executed a license agreement in which Lilly became the exclusive licensee of the '877 patent. Under the agreement, Lilly was not obligated to grant any sublicenses. We turn to a discussion of the issue.

Discussion

Generally, disclosure of communications to a third party waives any privilege in those communications. *See United States v. Lawless*, 709 F.2d 485, 487 (7th Cir. 1983) (holding that transmittal of information to an attorney with the intent that the information will be shared with a third party destroys confidentiality). However, the community of interest doctrine can be invoked in limited circumstances to guard the privilege despite the fact that the subject communications have been transmitted to a third party.

In order for the community of interest doctrine to be applied, the subject communications already must be privileged. As recognized in *Edward Lowe Industries, Inc. v. Oil-Dri*

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[2] UC had applied for a waiver earlier, but such waiver had been denied.

Corp. of Amer., 1995 WL 410979 (N.D. Ill. July 11, 1995) (citing *Allendale Mut. Ins. Co. v. Bull Data Sys.*, 152 F.R.D. 132, 140 (N.D. Ill. 1993), "the doctrine affords no independent shield from discovery." Moreover, the community of interest doctrine requires that the persons or entities involved in the communication exchange have an identical legal interest concerning the communication. *Duplan Corp. v. Deering Milliken, Inc.*, 397 F. Supp. 1146, 1172 (D.S.C. 1974). The *Duplan* court stated that

> [t]he key consideration is that the nature of the interest be identical, not similar, and be legal, not solely commercial.

Duplan, 397 F. Supp. at 1172.

Although some courts have expanded the community of interest doctrine to reach communications not meeting the stringent standard enunciated in *Duplan*, yet we are mindful of the Seventh Circuit's admonition that "[t]he scope of the privilege should be 'strictly confined within the narrowest possible limits.'" *United States v. Lawless*, 709 F.2d 485, 487 (7th Cir. 1983) (quoting 8 Wigmore, Evidence § 2291 (McNaughton rev. 1961) (further citations omitted). In view of this guidance, we adhere to the *Duplan* standard. *See Oak Indus., v. Zenith Indus.*, 1988 WL 79614 (N.D. Ill. July 27, 1988) (rejecting more liberal standard and determining that community of interest doctrine was inapplicable to party's disclosure of confidential information during business negotiations).

The present motion arises from the depositions of Sparrow, Levy and Dahling, who were in-house counsel at Lilly during the relevant time period. According to Genentech, UC counsel and representatives frequently discussed certain prior art -- which Genentech alleges is material to the '877 patent -- with Sparrow and Levy. Genentech's attempts to question Sparrow and Levy about UC's knowledge of the materiality of that prior art were met during deposition with UC's objections based on privilege. Moreover, on that same basis UC counsel prevented Genentech from securing certain information from

Dahling about his investigation into the source of the errors in the '877 patent as it originally issued. Genentech purports such information is necessary because UC's counsel alleges that she solely relied on Dahling's investigation in applying for a certificate of correction for the '877 patent. Genentech also seeks testimony from Dahling regarding his involvement in UC's quest for the certificate of correction -- a quest that Genentech contends led to inequitable conduct by UC.

UC asserts that the community of interest doctrine protects the subject communications. According to UC, it and Lilly had an identical legal interest in developing, prosecuting, and protecting patents arising from the work of UC researchers relating to human and animal growth hormone and insulin.

A thorough examination of the record leads us to conclude that UC cannot invoke the community of interest doctrine to protect the subject communications prior to the 1989 license agreement between UC and Lilly. Specifically, the Court is convinced that the relationship between Lilly and UC created by the option agreement was not one in which UC and Lilly's legal interests were identical.

First, both parties knew when they entered the option agreement in 1978 that any patents resulting from UC's research financed through federal grants was to be licensed on a nonexclusive basis. Obviously, a patentee and a nonexclusive licensee do not share identical legal interests. Until the HEW granted UC's 1987 application for a waiver of the nonexclusive licensing provision regarding the '877 patent, Lilly had only an option to license the subject technology on a nonexclusive basis. Through such arrangement, the interests of Lilly and UC appear even less similar than those interests between a patentee and a nonexclusive licensee.

Moreover, the option agreement provided that Lilly could walk away from the option agreement at any time. Lilly only was obligated, in the context of foreign patent applications, to notify UC in writing of its intent to abandon any application 90 days before such abandonment. Because Lilly was underwriting the costs of preparing and prosecuting foreign patent

applications, this notification was necessary to permit UC or the HEW to carry on the prosecution process, if either so desired. The option agreement did not suggest, in the event a patent issued from the PTO, that Lilly would have any responsibility for filing suit against alleged infringers.

Rather, it appears that, in the context of the subject option agreement, UC and Lilly's shared interests were only proprietary. Lilly had financing and expertise in prosecuting foreign patents. UC had technology. In exchange for Lilly's financial backing and expertise, UC extended an option to Lilly for an exclusive license to any resulting patents, subject to the limitations the HEW might impose on the United States patents. (As we stated earlier, the parties were aware of the HEW's nonexclusive licensing stipulation at the time they entered the option agreement.)

Previously, we noted that the *Duplan* court required the common interest between the two entities sharing the information in issue be legal. Generally, the common legal interest must arise out of impending or anticipated litigation or a joint effort to avoid litigation. *Edward Lowe*, 1995 WL 410979, at *3 (N.D. Ill. July 11, 1995) (citing *Medcom Holding Co. v. Baxter Travenol Labs.*, 689 F. Supp. 841, 844 (N.D. Ill. 1988); *Allendale Mutual Ins. Co.*, 152 F.R.D. at 141). The *Edward Lowe* court reasoned that such a requirement "ensures that the common legal interest 'arises out of the need for a common defense, as opposed merely to a common problem.'" *Id.* (quoting *Medcom,* 689 F. Supp. at 845).

In the instant case, we are convinced that the UC-Lilly relationship arising from the option agreement created no need for a common defense. The entities were prosecuting patents, and at that point, apparently were bound only by the prospects of financial gain and heightened reputation. We are persuaded that the patent prosecution process does not create a need for the type of "common defense" discussed in *Edward Lowe*. Unquestionably, once a patent is issued, defending its noninfringement, validity and enforceability are legal matters, the (potential) litigation of which might justify invocation of the

community of interest doctrine in limited circumstances. In the present case, however, we merely are faced with an agreement encompassing the prosecution of patents and a *potential* licensing arrangement. *See Oak* Indus., 1988 WL 79614 (N.D. Ill. July 27, 1988) (holding that defendant shared no common protected interest with the potential buyers of its consumer electronics group and, hence, disclosures were not protected). This arrangement does not met the standard enunciated in *Duplan*.

For these reasons, we find that UC may not invoke the community of interest doctrine to protect communications between it and Lilly between 1978 and 1989.[3] UC must produce to Genentech unredacted versions of the depositions of Levy and Sparrow.[4] Moreover, UC must afford Genentech the opportunity to continue the depositions of Levy, Sparrow and Dahling, as well as other Lilly and UC witnesses whose testimony was incomplete by reason of UC's improper objections based on the community of interest doctrine.

Dated this 2nd day of July, 1996.

/s/ S. Hugh Dillin

S. Hugh Dillin, Judge

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[3] It is unclear whether Genentech seeks discovery of communications between UC and Lilly after the date of their 1989 license agreement. If so, additional briefing targeting communications after the UC-Lilly licensing arrangement would be required before the Court would render a decision regarding discovery of those communications.

[4] In an effort to expedite discovery and to prepare another of these consolidated cases for trial, Magistrate Judge John Godich ruled on September 20, 1994, that Genentech temporarily would be excluded from portions of depositions concerning matters in which UC claimed that it and Lilly shared a community of interest. Magistrate Judge Godich also ruled that Genentech would receive redacted versions of those deposition transcripts. This Entry addresses the unredacted versions of such transcripts.

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Supreme Court, U.S.
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No. 96-1289

IN THE
Supreme Court of the United States
OCTOBER TERM, 1996

GENENTECH, INC.,
Petitioner,

v.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF IN OPPOSITION

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QUESTION PRESENTED

1) Whether the Federal Circuit correctly decided that otherwise privileged communications between a patent applicant and attorneys employed by its exclusive optionee concerning the optioned patent applications, and any related attorney work product, are protected by the "community of interest" doctrine from being waived when they are shared with the optionee where (a) the patent owner and the optionee had an "identical legal interest" with respect to the subject patent applications, (b) the optionee controlled the prosecution of the subject patent applications, and (c) the optionee's in-house counsel functioned as attorneys for the patent applicant with respect to the prosecution of the patent applications?

LIST OF PARTIES AND RULE 29.6 STATEMENT

The parties to the proceeding in the United States Court of Appeals for the Federal Circuit were petitioner Genentech, Inc. and respondent The Regents of the University of California. For purposes of S. Ct. R. 29.6, the respondent states that it has no parent companies or nonwholly-owned subsidiaries.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1996

No. 96-1289

GENENTECH, INC.,

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THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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BRIEF IN OPPOSITION

Respondent, The Regents of the University of California ("UC"), respectfully requests that this Court deny the petition for a writ of certiorari seeking review of the Federal Circuit's decision in this case. The Federal Circuit's opinion reversing the district court's order compelling deposition testimony of three attorneys employed by UC's exclusive optionee, Eli Lilly and Company ("Lilly"), who were involved in the prosecution of UC's U.S. Patent No. 4,363,877 ("the '877 patent") is reported at *In re the Regents of the University of California*, 101 F.3d 1386 (Fed. Cir. 1996), and is found at Petitioner's Appendix ("Pet. App.") A-1 to A-12. The district court's opinion, which had granted Genentech's motion to compel such testimony and overruled UC's objections based on the community of interest doctrine, and which was reversed by the Federal Circuit's writ of mandamus at

issue, is unreported and is found at Pet. App. A-13 to A-21.

STATUTE INVOLVED

As stated at Pet. 2, there are no constitutional provisions or federal statutes implicated by the present petition, which only involves a case-specific application of the common law doctrine of attorney-client privilege.

STATEMENT OF THE CASE

As an initial matter, UC believes a clarification of the record citation format is necessary. In the underlying petition for a writ of mandamus to the Court of Appeals, UC was the petitioner and Genentech was the respondent. Because that writ was granted, the parties' roles are now reversed before this Court yet Genentech has opted to cite to its exhibits below by their original designations; thus, Genentech's exhibits are cited in the petition to this Court as "Resp. Ex." even though Genentech is now the Petitioner. *See* Pet. 3 n.1. While that choice likely stems from Genentech's incorporation of its unsuccessful briefing below into its current petition, UC feels such designations may be confusing. Therefore, UC will instead refer to its exhibits below as "UC Ex." and to Genentech's exhibits as "Genen. Ex." UC's references to the opinions attached to the petition before this Court will be to "Pet. App. A—."

A. The Relationship Between UC and Lilly

As noted, UC is the owner of the '877 patent and of other United States and foreign patents relating to recombinant DNA technology. Although Genentech relies heavily on the agreements between UC and Lilly related to that technology, Genentech merely cites to them without providing them to the Court with the petition. Nevertheless, for purposes of the present petition, it is only pertinent that Lilly obtained "the exclusive right to obtain a license" under UC's pertinent United States and foreign patents. UC Ex. 6, at ¶ 3.1; UC Ex. 7, at ¶ 3.1. As a result of giv-

ing Lilly an exclusive option to obtain such a license, UC contractually gave up its ability to enter into any other agreements with other companies granting them the right to obtain licenses.

In return for its option for an exclusive license, Lilly agreed to "underwrite the cost for the preparation, filing and prosecution, with the cooperation of Regents, by patent counsel mutually acceptable to Lilly and Regents of all foreign patent applications on behalf of Regents . . . and the cost of maintaining all resultant applications." UC Ex. 6, at ¶ 2.1; UC Ex. 7, at ¶ 2.2 (also applies to U.S. applications). In short, Lilly agreed to assist UC in obtaining patent protection in the field of the agreements. At all times, prosecution of UC's patent applications was handled by outside counsel acceptable to both Lilly and UC, and under the direction and guidance of Lilly's in-house attorneys, or by Lilly's in-house attorneys themselves.

B. An Overview Of The Present Litigation [1]

On August 6, 1990, Genentech filed a declaratory judgment action in the United States District Court for the Southern District of Indiana against UC and Lilly, seeking a declaration that the '877 patent was invalid, unenforceable, and not infringed ("the Indiana action"). The next day, UC filed a lawsuit in the United States District Court for the Northern District of California charging Genentech with infringement of the '877 patent ("the California action"). The California action was a "mirror image" of the Indiana action, which Genentech had amended to include various antitrust and pendent state law claims.

On February 4, 1991, the Indiana court dismissed Genentech's declaratory judgment action, holding, *inter alia*,

[1] Much of the history in this section is not needed to resolve the issues raised by the petition, but is provided by UC as background for the Court and to provide context within the litigation for the issues that are raised.

that Congress had not abrogated UC's Eleventh Amendment immunity when enacting the patent laws, and that UC had not abrogated its immunity by owning a patent.[2] During Genentech's appeal of that dismissal, Congress added 35 U.S.C. § 271(h) and 35 U.S.C § 296 to the patent laws. As a result, Genentech's declaratory judgment action was held to fall within the statutory abrogation of Eleventh Amendment immunity and was thus the Indiana action was reinstated. *Genentech, Inc. v. Eli Lilly and Company*, 998 F.2d 931 (Fed. Cir. 1993), *cert. denied*, 510 U.S. 1140 (1994). After dismissing one of Genentech's antitrust claims, the Federal Circuit instructed the district court on remand to determine which of Genentech's other claims met the criteria of being defenses and compulsory counterclaims to the charge of patent infringement. *Id.* at 948-49.

On February 19, 1992, the Indiana action, the California action, and several other lawsuits in California and Indiana involving UC, Genentech, and Lilly had been consolidated in the Southern District of Indiana for pretrial proceedings by the multidistrict panel. Following the remand of the declaratory judgment action from the Federal Circuit, the Indiana court stayed the California action in favor of the "mirror-image" Indiana action. On December 22, 1994, Lilly and Genentech entered into a Settlement Agreement which resolved all claims between those two parties, so that Lilly is no longer a party to any of the underlying actions.

On November 18, 1994, the Indiana court denied Genentech's motion to amend its complaint and granted UC's

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[2] UC is an instrumentality of the State of California for Eleventh Amendment purposes, and actions by UC are entitled to the protection of the Eleventh Amendment. *See, e.g., Regents of the University of California v. Doe*, No. 95-1694 (U.S. Feb. 19, 1997); *BV Engineering v. University of California, Los Angeles*, 858 F.2d 1394, 1395 (9th Cir. 1988), *cert. denied*, 489 U.S. 1090 (1989).

motion to dismiss all of the non-patent counts of Genentech's complaint with the exception of one aspect of Count V related to Genentech's third-party beneficiary claims. *In re Recombinant DNA Technology Patent and Contract Litigation,* 874 F. Supp. 904 (S.D. Ind. 1994). During the same period of time, UC moved for relief from the protective order in the case in order to be able to rely on certain materials obtained during discovery to file additional federal antitrust and state law claims against Genentech in California. Over two years later, the district court held in April 1996 that UC's new proposed claims were compulsory counterclaims to the present litigation on grounds that UC's proposed claims were logically related to one of UC's defenses to Genentech's third-party beneficiary claim. As a result, the district court enjoined UC from filing its proposed claims in other courts.

UC filed an interlocutory appeal from that injunction to the Federal Circuit pursuant to 28 U.S.C. § 1292(c)(1). During the pendency of that appeal, the distinct court granted UC's renewed motion to dismiss Genentech's declaratory judgment action on Eleventh Amendment grounds in light of this Court's intervening decision in *Seminole Tribe v. Florida,* 116 S. Ct. 1114 (1996). That motion was granted on grounds that the district court lacked jurisdiction over a patent declaratory judgment action brought against a State's patent. *See Genentech, Inc. v. Regents of the Univ. of Cal.,* 939 F. Supp. 639 (S.D. Ind. 1996). In addition, the Indiana court granted UC's motion for summary judgment on the sole remaining aspect of Genentech's third-party beneficiary claims, ruling that Genentech had not relied on its alleged third party rights before they were validly rescinded by UC and Lilly.[3]

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[3] In light of the intervening rulings by the Indiana court, the Federal Circuit decided to stay UC's pending appeal of the district court's injunction and to consolidate that appeal with Genentech's later-filed appeal from the subsequent dismissal of its declaratory judgment action. As of the filing of this opposition,

On the same day that the Indiana court dismissed Genentech's declaratory judgment action, that court also lifted the stay of the California action and informed the multidistrict panel that "[i]nasmuch as [the California action] must be tried in California, and the discovery is essentially complete, I request that it be remanded to the Northern District of California." After Genentech's objections were overruled, the California action was remanded on January 30, 1997, to the Northern District of California. Hence, the California action—UC's infringement suit against Genentech—is the only pending case between the parties. Needless to say, it has not yet been tried.

C. The District Court's Order

As noted, discovery in the several separate litigations between UC, Lilly, and Genentech was consolidated pursuant to an order of the judicial panel on multidistrict litigation. In September 1994, pursuant to a request from UC, the district court temporarily excluded Genentech from portions of certain depositions of Lilly attorneys as to which UC claimed a community of interest privilege with Lilly, and directed that Genentech would receive redacted versions of the transcripts. UC Ex. 8, at 9 n.4. For the portions of the depositions at which Genentech was present, UC also objected to testimony, based on the attorney-client privilege and the community of interest doctrine. UC Ex. 2.

In March 1996, Genentech filed a motion to overrule UC's objection to discovery based on the community of interest doctrine, to continue the depositions of the Lilly attorneys, to obtain unredacted transcripts, and to instruct UC that attorney work product relating to the prosecution of UC patent applications, which was the subject of the depositions, is not immune from discovery. On July 2,

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the briefing in the latter appeal is still ongoing before the Federal Circuit.

1996, the district court granted Genentech's motion. Pet. App. A-13 to A-19.

In its order, the district court held that "the UC-Lilly relationship arising from the option agreement created no need for a common defense" because "[t]he entities were prosecuting patents, and at that point, apparently were bound only by the prospect of financial gain and heightened reputation." Pet. App. A-18. Thus the district court held: "UC may not invoke the community of interest doctrine to protect communications between it and Lilly between 1978 and 1989." Pet. App. A-19. Faced with the impending disclosure of its privileged information, UC sought a writ of mandamus from the Federal Circuit.

D. The Federal Circuit's Writ Of Mandamus

The Federal Circuit's opinion granting UC's writ of mandamus is found at Pet. App. A-1 to A-12. However, the substance of the Federal Circuit's opinion granting UC's request for a writ of mandamus receives scant substantive discussion in Genentech's petition. Nevertheless, even a basic reading of that decision reveals that the Federal Circuit correctly held that the "community of interest" doctrine applied to the privileged communications shared between UC (as the owner of the rights in the inventions) and Lilly (as the holder of the exclusive option to obtain a license under the inventions) with respect to the prosecution of UC's patents that were to be licensed to Lilly. As discussed further in the argument section below, there is no reason for this Court to grant a petition for writ of certiorari to review that decision.

Simply put, the Federal Circuit's analysis does not contain any of the legal errors attributed to it by Genentech, nor does that court's opinion or result reflect a departure from established law in any regard. Indeed, the most direct rebuttal to Genentech's petition to this Court is provided by the Federal Circuit's opinion itself. That is

not surprising because Genentech's petition merely recycles the same arguments that were considered and rejected by the Federal Circuit. More importantly, as an application of the existing law to the specific fact pattern of a joint effort to procure patent protection undertaken by a licensor-inventor and its exclusive optionee—a matter implicating substantive patent law falling within the Federal Circuit's particular expertise—that court's opinion is insightful, instructive, and correct.

REASONS FOR DENYING THE WRIT

On its face, Genentech's petition merely complains of an interlocutory legal determination reached by the Federal Circuit, a result which is virtually compelled by a proper application of long-established attorney-client privilege law and the community of interest doctrine. There is nothing remarkable about the Federal Circuit's conclusion that the "community of interest" rule protects privileged communications shared between a patent applicant and a company having an exclusive option to obtain a license under the resulting patents. Thus, there is no reason for this Court to grant certiorari to review the propriety of that decision, which is plainly correct and which only affects the parties to this litigation.

The Federal Circuit properly utilized the remedy of mandamus to prevent the improper disclosure of UC's privileged information to Genentech. In any event, even if the Federal Circuit's action in protecting UC's privileged information were somehow erroneous (which it is not) and even if that nondisclosure later has a substantive effect on the outcome of the trial (which is wholly speculative), Genentech could still attempt to bring that issue to this Court following final judgment. For each of these reasons, Genentech's present petition should be denied.

I. THE FEDERAL CIRCUIT'S DECISION IS PLAINLY CORRECT

By its own admission at Pet. 11 & 12, the basis for Genentech's current petition reduces to a two-pronged premise: (1) that the Federal Circuit allegedly modified the Seventh Circuit's "identical legal interest" doctrine to create a more flexibile and impermissible "substantially identical legal interest doctrine," and (2) that the Federal Circuit allegedly ignored the traditional "in anticipation of litigation" condition that is required for a valid community of interest exception to a waiver of an attorney-client communication. However, Genentech's attempt to manufacture a conflict among the circuits is illusory. Moreover, its assertions of error have no basis in the record, in the Court of Appeals' opinion, or in the law.

A. Genentech's Attempt To Manufacture A Conflict Between The Federal And Seventh Circuits Is Baseless

Genentech attempts to justify a writ of certiorari as warranted by fabricating a "circuit conflict" that does not exist, and by asserting that the Federal Circuit somehow violated Seventh Circuit law in reaching its decision. Of course, even if the Federal Circuit had actually misapplied or misunderstood Seventh Circuit law, that would not create a situation that warrants review by this Court. To the extent that the Federal Circuit's decision did implicate Seventh Circuit law, any pronouncements by the Federal Circuit could not change the Seventh Circuit's law so that any conflict or error would be limited to this case. On the other hand, to the extent that the Federal Circuit's decision implicates substantive patent law issues within its exclusive jurisdiction, the Federal Circuit was not bound by any prior or contrary Seventh Circuit law. In any event, the Federal Circuit's announcement and application of the law was entirely proper.

The Federal Circuit stated that it was following Seventh Circuit law with respect to the issue of the scope of the

attorney-client privilege. Pet. App. A-10 & n.2. However, whether patent prosecution is appropriate for the attorney-client privilege to attach or whether the prosecution process creates a need for a common defense privilege between a patent owner and an exclusive optionee are more properly viewed as being matters to be decided under Federal Circuit law.

> Consultation with counsel during patent prosecution meets the criteria of compliance with the law and meeting legal requirements, thereby reducing or avoiding litigation, and is within the scope of the subject matter that is subject to the attorney-client privilege.
>
> We conclude that the joint client doctrine and the community of interest doctrine apply to and protect legal advice and communications between the patent applicant or patentee and attorneys of its optionee/licensee.

Pet. App. A-11-12. However, even to the extent that the Federal Circuit followed or considered Seventh Circuit law in reaching its conclusions, the Federal Circuit did not deviate from or conflict with existing Seventh Circuit law.

At Pet. 11, Genentech provides a string of citations to Seventh Circuit district court decisions, but fails to explain what rule of law set forth by those cases is supposed to be in conflict with the Federal Circuit's decision. As characterized by Genentech, those cases require that the underlying communications themselves be privileged, that the parties have an identical legal interest with respect to the subject of the communications, and that such interest arise out of impending or anticipated litigation or a joint effort to avoid litigation. *Id.* However, contrary to Genentech's allegations, the Federal Circuit's decision is fully consistent with the community of interest doctrine applied by the district courts in the Seventh Circuit.

B. The Federal Circuit Correctly Concluded That A Patentee And Its Optionee Have An Identical Legal Interest To Obtain Strong And Enforceable Patents

As to Genentech's premise that the Federal Circuit restated and misapplied the governing "identical legal interest" test, even a brief reading of the Federal Circuit's opinion exposes the lack of merit to Genentech's claim. It is readily apparent that Genentech is attempting to transform a single inclusion of the word "substantially" in the Federal Circuit's opinion into a legal error of sufficient proportion to justify a writ of certiorari to review an interlocutory order that may affect only this case at some point in the future. Not only does Genentech emphasize that single word out of context, but its entire argument to the contrary is nothing more than baseless semantics.

Although Genentech seizes upon the one occasion when the Federal Circuit described the legal interests of UC and Lilly as being "substantially identical," Pet. App. A-10, the court was not creating a new and more relaxed standard for applying the "community of interest" test. In the next sentence of its opinion, the Federal Circuit stated that "[b]oth parties had the *same interest* in obtaining strong and enforceable patents." *Id.* (emphasis added). In the sentence following immediately after that one, the Court of Appeals expressly stated that the district court had "erred in concluding that Lilly and UC did not have an identical legal interest in the '877 patent." *Id.* Viewed in the context of the Federal Circuit's full opinion, the entire premise of Genentech's petition that is based on the single use of the term "substantially" simply evaporates.

Furthermore, the Federal Circuit's holding that an "identical legal interest" sufficient to preserve confidentiality of attorney-client communications arises between parties like UC and Lilly involved in joint efforts to prosecute patents is fully consistent with other cases—even in the Seventh Circuit.

> A community of interest may arise between parties jointly developing patents because they have a com-

> mon interest in developing the patents to (1) obtain the greatest protection of the patents, and (2) in exploiting the patents.

Graco Children's Products, Inc. v. Dressler, Goldsmith, Shore & Milnamow, Ltd., 1996 WL 360590 at *5 (N.D. Ill. 1995). Moreover, another Seventh Circuit district court had previously reached the same conclusion as the Federal Circuit, holding that the community of interest rule protects communications shared between the patent applicant and a company having an option to obtain an exclusive license under the patent. *See Baxter Travenol Laboratories, Inc. v. Abbott Labs.*, 1987 WL 12919 at *2 (N.D. Ill. 1987) (determining that an identical legal interest existed even where "Baxter had the option to acquire an exclusive world-wide license on any inventions, improvements, ideas, developments, patent applications, and patents").

Genentech condemns the Federal Circuit for an alleged "monumental factual blunder" for holding that "Lilly was more than a non-exclusive licensee." Pet. 13. However, the record demonstrates that conclusion is entirely correct. Through its agreements with UC, Lilly obtained "the exclusive right to acquire a license." UC Ex. 6, at ¶ 3.1; UC Ex. 7, at ¶ 3.1. Under those provisions, Lilly was the exclusive optionee—UC gave up the ability to enter into any other agreements with other companies granting them the right to obtain licenses. In fact, Lilly later exercised its option and became the exclusive licensee under the UC patents. Pet. App. A-10. Because Lilly was UC's exclusive optionee, the Federal Circuit correctly concluded that "Lilly was more than a non-exclusive licensee." *Id.*

Without doubt, UC and Lilly had an identical legal interest with respect to the subject patent applications at issue. That is all that matters. That there may not have been complete identity between UC's and Lilly's legal interests with respect to other technology, other agreements, other parties, or even Genentech has no bearing

on the proper legal inquiry. Hence, Genentech's lengthy dissertation regarding allegedly overlapping interests shared by Lilly and Genentech has no bearing on whether UC and Lilly shared identical interests with respect to UC's subject patents. Thus, the Federal Circuit correctly rejected the district court's view that UC's and Lilly's shared interests were only proprietary rather than legal. Pet. App. A-10-11.

The Federal Circuit thus also correctly determined that the District Court erred as a matter of law in determining that the option agreement did not create an "identical legal interest" between UC and Lilly with respect to the prosecution of the patent applications. *Id.* at A-10. The District Court's contrary decision conflicted with the other Seventh Circuit district court cases that agreed that joint prosecution results in the parties having an identical legal interest with respect to the subject patents. Moreover, the District Court's decision squarely conflicted with the *Baxter Travenol* decision, which held that an identical legal inteerst could arise between the patent owner and the optionee of an exclusive license. Not only was there no conflict created by the Federal Circuit's decision in this case, but no other legal conclusion was proper.

C. Genentech Has No Basis For Its Assertion That The Federal Circuit Ignored The "In Anticipation Of Litigation" Requirement

Genentech's asserted "circuit conflict" as to the "anticipation of litigation" element is likewise illusory. The Federal Circuit's decision does not do away with a requirement that the identical legal interest arise out of impending or anticipated litigation or a joint effort to avoid litigation. The Federal Circuit simply affirmed the rule, accepted even in other Seventh Circuit cases, that the communications in question need not take place when litigation is immediately imminent—*i.e.*, "in the shadow of litigation" as the Federal Circuit stated. Pet. App. A-11.

That holding is consistent with the applicable case law, including those of other district courts from the Seventh Circuit, holding that joint efforts in prosecuting patents create identical legal interests in anticipation of litigation or in avoiding litigation. As one district court stated:

> Although a community of legal interests usually arises between parties engaged in or anticipating imminent litigation, litigation or impending litigation is not a prerequisite for the existence of a community of legal interests; corporations seek legal advice in order to plan their conduct and avoid litigation as well as to deal with present or impending litigation, and a community of legal interest may arise in the former situation as well as the latter.

Baxter Travenol, 1987 WL 12919 at *1 (citing *SCM Corp. v. Xerox Corp.*, 70 F.R.D. 508, 513 (D. Conn.), *appeal dism'd*, 534 F.2d 1031 (2d Cir. 1976). The *Baxter Travenol* court further determined, consistent with the Federal Circuit's decision in this case, that patent prosecution efforts result in identical legal interests as to impending litigation:

> A community of legal interest may arise between parties jointly developing patents; they have a common legal interest in developing patents to obtain greatest protection and in exploiting the patents.

Baxter Travenol, 1987 WL 12919 at *1; *see* Pet. App. A-11 (also citing *SCM Corp.* and *Baxter Travenol* cases).

Genentech's argument ignores that the community of interest doctrine applies not only to communications made in anticipation of litigation, but also to joint efforts to avoid litigation. *See, e.g.*, Pet. 11. Contrary to Genentech's assertions, joint efforts designed to obtain valid patent protection qualify on both prongs because the primary value of a patent stems from the enforcement or marketing of the statutory right to exclude others from

practicing the claimed invention.[4] A patent can be used offensively to exclude others, which necessarily must occur through litigation, *i.e.*, by filing and pursuing an infringement suit. *See* 35 U.S.C. § 154(a)(1). Alternatively, a patent can be used defensively by being licensed or cross-licensed to others so as to enable the owner to avoid litigation. Thus, any joint effort designed to obtain valid patent protection necessarily is undertaken either in anticipation of potential litigation or to create the means by which to avoid such litigation.

II. THE FEDERAL CIRCUIT CORRECTLY GRANTED A WRIT OF MANDAMUS TO OVERTURN THE DISTRICT COURT'S ORDERING PRODUCTION OF UC'S PRIVILEGED INFORMATION

From the outset of its opinion, the Federal Circuit acknowledged that a writ of mandamus is an extraordinary remedy to be exercised only where the right to the desired relief is clear and where there is no other adequate means by which to obtain such relief. Pet. App. A-4. However, the court also appreciated that a writ is an appropriate mechanism by which to prevent the wrongful exposure of privileged communications because an appeal after the disclosure of the communications is an inadequate remedy. *Id.* (and cases cited).

As the court of appeals responsible for administering the patent laws, the Federal Circuit realized that an immediate review of the district court's ruling that the attorney-client privilege did not apply when Lilly attorneys provided legal advice and services to UC about obtaining valid patent protection for UC's inventions "would avoid the development of doctrine that would undermine the privilege" in that particular area of substantive law. Pet.

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[4] *See, e.g., Polymer Technologies, Inc. v. Bridwell*, 103 F.3d 970, 975 (Fed. Cir. 1996); *Hybritech, Inc. v. Abbott Labs.*, 849 F.2d 1446, 1456 (Fed. Cir. 1988) (stating that "the principal value of a patent is its statutory right to exclude").

App. A-5 (citation omitted). As that is a proper exercise of mandamus power, Genentech has no grounds to support its assertion that the decision in this case will cause an increase in the number or decrease in the merit of future mandamus petitions in the appellate courts.

Although Genentech still suggests that the Federal Circuit erred in granting the extraordinary remedy of writ of mandamus, the cases cited by Genentech are inapposite. In *Allied Chem. Corp. v. Daiflon, Inc.*, 449 U.S. 33 (1980), this Court reversed a writ of mandamus directing the district court to vacate an order for a new trial. As the Court observed, any error committed by the district court in granting a motion for new trial is freely reviewable on appeal after the new trial. *Id.* at 36. In *In re Cordis Corp.*, 769 F.2d 733 (Fed. Cir.), *cert. denied*, 474 U.S. 851 (1985), the Federal Circuit declined to issue a writ of mandamus ordering a district court to dismiss a case for improper venue. Like an order for a new trial, a decision not to dismiss for improper venue would be freely reviewable from a final judgment.

In contrast, the Federal Circuit in this case correctly recognized that the district court's order for UC to produce its privileged information does not represent either a routine discovery dispute nor one that should be allowed to await final judgment. Pet. App. A-4.

> [B]ecause maintenance of the attorney-client privilege up to its proper limits has substantial importance to the administration of justice, and because an appeal after disclosure of the privileged communication is an inadequate remedy, the extraordinary remedy of mandamus is appropriate.

Id. (quoting *Harper & Row Publishers, Inc. v. Decker*, 423 F.2d 487, 492 (7th Cir. 1970), *aff'd per curiam*, 400 U.S. 348 (1971)). Thus, the Federal Circuit properly considered and granted a writ of mandamus in order to correct the clear legal error committed by the District

Court in ordering UC to produce its privileged documents to Genentech.

Having done so, however, the corresponding need for interlocutory review of the Federal Circuit's decision by this Court is far less compelling. Unlike an order requiring production of privileged material, an order denying production of such material can be reviewed following final judgment. To the extent that Genentech might find itself in a position to need review from this Court following any appeals from any final judgment entered in the California action, Genentech will be able to include this issue in a petition at that time. Despite this litigation having been pending for nearly six years already, there has not even been a trial. At this point, whether the absence of the requested discovery from three Lilly attorneys will have a bearing on the outcome of that trial and any subsequent appeals is entirely speculative. Thus, there is no reason for this Court to waste its limited resources deciding an interlocutory issue that might not even be pursued by Genentech in the future.

CONCLUSION

For the reasons set forth above, the petition for writ of certiorari should be denied.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1996

GENENTECH, INC.,

Petitioner,

vs.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Respondent.

REPLY BRIEF IN SUPPORT OF A PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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Genentech, Inc. ("Genentech") respectfully submits this reply brief in support of its petition for a writ of certiorari.

I. The Federal Circuit's Decision Represents a Drastic Departure From Preexisting Law and Has Created A Significant Conflict Among the Lower Courts

The Brief in Opposition (March 17, 1997) of the Regents of the University of California ("UC") attempts to minimize the extent to which the Federal Circuit's decision in *In Re the Regents of the University of California*, 101 F.3d 1386 (Fed. Cir.

1996) has created a conflict among the lower courts concerning the scope of the "community of interest" doctrine. UC can do so only by grossly mischaracterizing the Federal Circuit's opinion and by distorting preexisting law. In fact, had the traditional community of interest doctrine been applied to the instant case, the District Court's ruling would have been affirmed.

A. The Federal Circuit's Decision is a Drastic Departure from Traditional Doctrine

The "substantially identical" legal interest standard adopted by the Federal Circuit is fundamentally different than the traditional "identical legal interest" standard, which required an absolute identity of legal interests. *See*, *Duplan Corp. v. Deering Milliken, Inc.*, 397 F. Supp. 1146, 1172 (D. S.C. 1975) (under the traditional doctrine, "...the key consideration is that the nature of the interest be identical, not similar, and be legal, not solely commercial").

Perhaps more importantly, however, the Federal Circuit's opinion explicitly obliterates the "in anticipation of litigation" prong of the test, finding that it is sufficient if the communications related to "compliance with law and meeting legal requirements". *Id.* The Federal Circuit concludes that virtually every communication during patent prosecution will satisfy this test.

By adopting this watered-down test in the context of communications shared during patent prosecutions, the Federal Circuit has effectively swept aside the "in anticipation" prong of the traditional test. Since virtually all communications during patent prosecutions between parties with "substantially identical legal interests" will relate in one way or another to "compliance with law and meeting legal requirements", under the approach of the Federal Circuit all such communications will be deemed protected by a community of interest, irrespective of whether the communications were actually in anticipation of litigation or made as part of a joint plan to avoid litigation. Under the traditional doctrine, the party seeking to sustain a claim of privilege had the burden of showing that

each one of the specific communications at issue occurred in relation to specifically anticipated litigation or as part of a plan to void specifically identifiable anticipated litigation. *See*, *Duplan*, 397 F. Supp. at 1172. The Federal Circuit has effectively eviscerated this traditional requirement in the context of patent prosecutions.

B. Under the Traditional Legal Standard, The Community of Interest Doctrine Did Not Apply to Mere Exclusive Optionees

In attempting to prove that the Federal Circuit's ruling did not create a conflict among the lower courts, UC contends that the Federal Circuit's opinion is consistent with the decision of the United States District Court for the Northern District of Illinois in *Baxter Travenol Labs Inc. v. Abbott Labs.*, 1987 WL 12919 (N.D. Ill. June 19, 1987). However, UC is dead wrong. In fact, if the reasoning of *Baxter Travenol Labs* were applied to the present case, UC's claim of privilege would not be sustained because Lilly held at most an exclusive option for a non-exclusive license, and was "less than" a non-exclusive licensee.[1]

First, unlike the Federal Circuit, the Court in *Baxter Travenol Labs* carefully adhered to both prongs of the "identical legal interest" standard. *Id.* at *2.

Second, contrary to UC's suggestion, the facts in *Baxter Travenol* are substantially different from the facts in the

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[1] UC asserts that the Federal Circuit did not err when it found that Lilly was "more than" a non-exclusive licensee. However, this was a clear, and indeed, monumental, error. During the time period in which the communications at issue were generated (i.e., prior to 1989), Lilly had at most an exclusive option for a *non-exclusive license*. Until Lilly exercised this option, it had no rights to practice under UC's patents and thus, was "less than" a non-exclusive licensee. In this regard, the Federal Circuit mysteriously ignored the uncontradicted findings by the District Court that there was considerable doubt as to whether Lilly would exercise its option, and that Lilly was free to walk away from its option at any time. In these circumstances, the Federal Circuit clearly abused its discretion.

present case, and indeed, the differences in the facts between the two cases are highly instructive. In *Baxter Travenol*, Baxter entered into a consulting and option agreement in December 1978 pursuant to which it participated in a joint program with Popovitch and Moncrief ("Popovitch") for developing certain patents and technology. *Id.* Baxter was granted the option of acquiring an exclusive world-wide license of any patents or patent rights arising from the parties' joint efforts. *Id.* In March 1981, Baxter exercised its option and obtained licenses on the patents. The patents which were licensed to Baxter were the direct outgrowth of the joint development program. *Id.* There was no evidence that Baxter had obtained rights to competing patents or conflicting patents developed by competitors of Popovitch.

In contrast, in the present case, in 1978 UC and Lilly entered into an option agreement pursuant to which Lilly acquired an exclusive option to acquire a *non-exclusive* license of patent rights that were the result of certain governmentally-funded research at UC, including the rights to the patent-in-suit.[2] Since the option agreement required that Lilly issue sublicenses to qualified licensees, Lilly's exercise of its option would not have enabled it to exclude its competitors from the market. Therefore, as the District Court found, it was not a foregone conclusion that Lilly would exercise its option.

The undisputed facts indicated that Lilly informed UC that it would only be willing to accept a license on an exclusive basis, thereby requiring modification to the terms of Lilly's option. (Pet. at 5) UC maintained in the District Court that it was "confused" during the relevant time period as to whether

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[2] UC complains that Genentech did not provide copies of the option agreement with its initial petition. However, UC does not dispute, nor could it dispute, that Lilly had an option for only a *non-exclusive* license. Since it is undisputed that the district court's decision accurately summarized the terms of the option agreement, Genentech did not file the actual agreement -- which was produced under a confidentiality agreement -- with this Court, but Genentech would be pleased to do so if UC and Lilly do not object.

Lilly had exercised the option. (UC Ex. 3 at n. 10)[3] Moreover, the patents and patent applications at issue were not the product of UC's joint collaborative research with Lilly, but resulted from federally-funded research at UC. (Pet. at 4) Lilly first acquired rights to practice under the patent-in-suit in 1989, and even then it continued to have an interest in competing Genentech patents. (Pet. at 5) Lilly never acquired rights to practice under any of the other patents and patent applications as to which UC has asserted a community of interest with Lilly. *Id.* Moreover, UC never made any attempt to show that any of the communications at issue were in anticipation of litigation (or as part of a plan to avoid litigation). Thus, if *Baxter Travenol*, and the traditional legal doctrine articulated therein, were faithfully applied to the facts of this case, the Federal Circuit would have affirmed the decision of the District Court.

Instead, the Federal Circuit elected to reverse the District Court's decision. In so doing, the Federal Circuit has created a serious conflict among the lower courts that is ripe for resolution by this Court.[4]

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[3] As used herein, "UC Ex. " refers to Exhibits to UC's Petition for Writ of Mandamus, dated July 16, 1997.

[4] UC argues that this Court should not grant Genentech's petition because after final judgment, Genentech could appeal the Federal Circuit's ruling. This case presents the Court with a rare and meaningful opportunity to consider a vital issue of concern to litigants throughout the United States, particularly because, in the circumstances of this complex and important case, this Court's consideration of the issue will also substantially assist the parties and the lower courts in advancing this case toward final disposition.

CONCLUSION

Based on the foregoing, and for the reasons set forth in Genentech's main brief, Genentech respectfully requests that the Court grant its petition for writ of certiorari.

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